

PALESTINIAN CENTER FOR HUMAN RIGHTS

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2004**

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

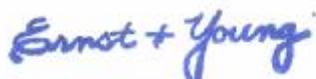
To the Board of Directors
Palestinian Center for Human Rights
Gaza - Palestine

We have audited the accompanying statement of financial position of the Palestinian Center for Human Rights (PCHR), a-not-for-profit organization, as of December 31, 2004 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of PCHR's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palestinian Center for Human Rights as of December 31, 2004 and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Our audit of the financial statements of the Palestinian Center for Human Rights for the year ended December 31, 2004, has been made primarily for the purpose of expressing an opinion on the financial statements as a whole. The supplementary information set out on page 14 is presented for analysis purposes and is not considered necessary for presenting fairly in all material respects, the financial position of PCHR as of December 31, 2004 nor the results of its activities and its cash flows for the year then ended. In our opinion the supplementary information is consistent, in all material respects with the financial statements to which it relates.



Gaza - Palestine
April 16, 2005

PALESTINIAN CENTER FOR HUMAN RIGHTS

STATEMENT OF FINANCIAL POSITION

As of December 31, 2004

(Currency: U.S. Dollar)

	<u>Notes</u>	<u>2004</u>	<u>Restated 2003</u>
<u>ASSETS</u>			
Current Assets			
Cash and cash equivalents	3	164,564	8,290
Time deposit	4	-	100,789
Contributions receivable	5	311,731	136,451
Other current assets	6	14,062	23,030
Total current assets		<u>490,357</u>	<u>268,560</u>
Property and equipment, net	7	<u>68,850</u>	<u>107,969</u>
Total Assets		<u>559,207</u>	<u>376,529</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities	8	73,306	61,424
Temporarily restricted contributions	9	406,834	219,681
Total Liabilities		<u>480,140</u>	<u>281,105</u>
Net Assets			
Unrestricted net assets		<u>79,067</u>	<u>95,424</u>
Total Net Assets		<u>79,067</u>	<u>95,424</u>
Total Liabilities and Net Assets		<u>559,207</u>	<u>376,529</u>

The attached notes 1 to 17 form part of these financial statements.

PALESTINIAN CENTER FOR HUMAN RIGHTS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004

(Currency: U.S. Dollar)

	Notes	2004	Restated 2003
Revenues			
Unrestricted contributions	10	678,571	752,841
Temporary restricted contributions released from restrictions	11	554,168	330,419
Other revenues		163	2,870
Total revenues		<u>1,232,902</u>	<u>1,086,130</u>
Expenses			
Programs	12	883,814	829,072
Administrative and general	12	316,765	277,927
Depreciation	7	48,680	58,419
Total expenses		<u>1,249,259</u>	<u>1,165,418</u>
Decrease in net assets		(16,357)	(79,288)
Net assets, beginning of year		95,424	174,712
Net assets, end of year		<u>79,067</u>	<u>95,424</u>

The attached notes 1 to 17 form part of these financial statements.

PALESTINIAN CENTER FOR HUMAN RIGHTS

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2004

(Currency: U.S. Dollar)

	<u>2004</u>	<u>Restated 2003</u>
Cash flows from operating activities		
Decrease in net assets	(16,357)	(79,288)
Adjustment to reconcile changes in net assets to net cash flows from operating activities:		
Non cash item		
Depreciation	48,680	58,419
	<u>32,323</u>	<u>(20,869)</u>
Change in working capital:		
Increase in contributions receivable	(175,280)	(116,770)
Decrease in other current assets	8,968	22,482
Increase in current liabilities	11,882	42,441
Increase (decrease) in temporary restricted contributions	187,153	(256,903)
Net cash flows from (used in) operating activities	<u>65,046</u>	<u>(329,619)</u>
Cash flows from investing activities		
Purchase of property and equipment	(9,561)	(19,254)
Decrease in time deposit	100,789	164,714
Net cash flows from investing activities	<u>91,228</u>	<u>145,460</u>
Net increase (decrease) in cash and cash equivalents	156,274	(184,159)
Cash and cash equivalents, beginning of year	<u>8,290</u>	<u>192,449</u>
Cash and cash equivalents, end of year	<u>164,564</u>	<u>8,290</u>

The attached notes 1 to 17 form part of these financial statements.

PALESTINIAN CENTER FOR HUMAN RIGHTS

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2004

(Currency: U.S. Dollar)

1. PCHR and its Activities

Palestinian Center for Human Rights (PCHR) was established on April 1, 1995 and formally registered in Gaza on August 10, 1995, as a not-for-profit organization, by a group of lawyers and human rights activists aiming at protecting human rights and promoting the rule of law in accordance with international standards. In addition, PCHR goals are to develop democratic institutions and an active civil society, while promoting democratic culture within the Palestinian society. PCHR has, in addition to its main office in Gaza city, offices in Jabalia and Khan Younis.

PCHR activities include monitoring, investigating and documenting human rights violations and extending the necessary consultation services to individuals and groups through conducting necessary researches in human rights agreements and international law.

PCHR has the following units: fieldwork, legal aid, woman, social, economical and cultural rights, democratic development, international and training.

The average number of employees in PCHR was 39 in 2004 and 2003.

The financial statements were authorized for issue by PCHR Board of Directors in their meeting held on April 16, 2005 in Gaza.

2. Summary of Significant Accounting Policies

– Basis of presentation

The financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board (IASB).

Currently, the International Financial Reporting Standards do not include any specific requirements regarding the not-for-profit organization in connection with the accounting policies or the presentation of the financial statements.

The financial statements have been presented in U.S. Dollars.

– Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and at banks.

– Change in accounting policy

During 2004, PCHR changed its accounting policy related to contributions from unconditional pledges. The financial statements, including the comparative figures for the prior period, are presented as if the new accounting policy had been applied from the beginning of 2003. Therefore, 2003 comparative figures are restated in order to reflect the new accounting policy. The nature of the change and the effect of the restatement are depicted in note 14.

- **Donation revenues**

Donor's unconditional pledges are those pledges where donor does not specify prerequisites that have to be carried out by the recipient before obtaining the fund.

Donation revenues from unconditional pledges are recognized as follow:

- Unconditional pledges that are not restricted for specific purpose or time are recognized as revenue when the pledge is obtained.
- Unconditional pledges that are temporarily restricted by donor for specific purpose or time are recognized as revenue when such purpose or time is satisfied.

- **Property and Equipment**

Property and equipment are stated at cost on the date of acquisition, or in case of gifts, at fair market value at the date of donation. Depreciation is computed on a straight-line method using the following depreciation rates.

	<u>%</u>
Furniture and fixtures	10
Office equipment	15
Computers	25
Motor vehicles	15
Library books	10

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

- **Expenses recognition**

Expenses are recognized when incurred based on the accrual basis of accounting.

- **Foreign Currency**

PCHR reporting currency is the United States Dollar (U.S. \$). Transactions, denominated in other currencies during the year, are recorded using the exchange rates in effect at the time of each transaction. Monetary assets and liabilities denominated in other currencies are translated to U.S. \$ using the exchange rates prevailing at year end. Gains or losses arising from exchange rate differences are reflected in the statement of activities.

Foreign currency exchange rates against U.S. \$ as of the date of the statement of financial position were as follows -

	<u>U.S. \$</u>	
	<u>2004</u>	<u>2003</u>
One New Israeli Shekel (NIS)	0.22	0.23
One European Monetary Unit (EURO)	1.36	1.26

3. Cash and cash equivalents

Cash and cash equivalents include the following:

	<u>2004</u>	<u>2003</u>
Cash on hand	689	499
Cash at Banks	<u>163,875</u>	<u>7,791</u>
	<u>164,564</u>	<u>8,290</u>

4. Time deposit

The time deposit at bank of the year 2003 was due within four months after the financial statements date. Average interest rate on such a deposit amounted to 0.85%.

5. Contributions receivable

	<u>2004</u>	<u>2003</u>
European Commission	19,681	19,681
Swedish ICJ – Sweden	-	41,770
Open Society Institute Development Foundation	-	75,000
Christian Aid	57,150	-
Christian Aid/Development Cooperation Ireland		
Multi Annual Partnership Scheme (MAPS)	62,000	-
NOVIB	156,000	-
Al-Quds Association Malaga-Spain	16,900	-
	<u>311,731</u>	<u>136,451</u>

6. Other current assets

	<u>2004</u>	<u>2003</u>
Prepaid rent	4,667	6,667
Due from employees	9,059	11,191
Others	336	5,172
	<u>14,062</u>	<u>23,030</u>

7. Property and equipment

Components of property and equipment as of December 31, 2004 and movement during the year were as follows:

	Balance, January 1, 2004	Additions	Disposals	Balance, December 31, 2004
Cost:				
Furniture and fixtures	89,541	1,394	-	90,935
Office equipment	161,508	4,556	-	166,064
Computers	95,488	3,210	-	98,698
Motor vehicle	35,000	-	-	35,000
Library books	49,694	401	-	50,095
	<u>431,231</u>	<u>9,561</u>	<u>-</u>	<u>440,792</u>
Accumulated depreciation:				
Furniture and fixtures	49,390	9,064	-	58,454
Office equipment	124,928	24,546	-	149,474
Computers	92,427	4,825	-	97,252
Motor vehicle	26,393	5,250	-	31,643
Library books	30,124	4,995	-	35,119
	<u>323,262</u>	<u>48,680</u>	<u>-</u>	<u>371,942</u>
Net book value	<u>107,969</u>			<u>68,850</u>

Property and equipment includes U.S. \$ 94,556 and U.S. \$ 75,125 of fully depreciated assets as of December 31, 2004 and 2003, respectively that is still used in PCHR operations.

8. Current liabilities

	2004	2003
Due to employees' fund *	52,716	44,975
Accrued professional fee	7,274	6,274
Accrued telephone expenses	3,732	4,179
Accrued payroll tax	9,256	2,545
Others	328	3,451
	<u>73,306</u>	<u>61,424</u>

* Provision for employees' end of service benefits is calculated in accordance with Labor law prevailing in Palestine based on one month indemnity for each year of employment.

In addition, the PCHR has established a saving fund for its employees. The monthly contribution by the employee and the employer is set at 7% and 14% of the basic salary, respectively.

PCHR maintains separate accounting records for both the provision for employees' indemnity and the saving fund, with a special bank account. The balance of this bank account was U.S. \$ 453,196 and U.S. \$ 410,762 as of December 31, 2004 and 2003, respectively.

9. Temporary restricted contributions

This item comprises of temporarily restricted contributions subject to purpose restriction. These amounts represent the excess of the donations received over the expenditures made out to satisfy the purposes stipulated by the donors. As of December 31, 2004, temporarily restricted contributions comprise the following:

	<u>2004</u>	<u>2003</u>
NOVIB	201,028	-
Ford Foundation	-	200,000
Representative Office of Norway	49,330	-
European Commission	19,681	19,681
Kvinna till Kvinna	5,961	-
Dan Church Aid – Denmark	11,684	-
Christian Aid	57,150	-
Christian Aid/Development Cooperation Ireland Multi Annual Partnership Scheme (MAPS)	62,000	-
	<u>406,834</u>	<u>219,681</u>

Movement on temporarily restricted contributions during the year was as follows:

	<u>2004</u>	<u>2003</u>
Beginning balance	219,681	476,584
Additions during the year*	741,321	73,516
Temporary restricted contributions released from restrictions (note 11)	(554,168)	(330,419)
Ending balance	<u>406,834</u>	<u>219,681</u>

* Additions to temporarily restricted contributions have been received and pledged during the year from the following donors:

	<u>2004</u>	<u>2003</u>
NOVIB	257,915	-
Representative Office of Norway	123,207	-
Consulate of France	78,460	-
Kvinna till Kvinna	51,000	-
Dan Church Aid – Denmark	11,684	-
Christian Aid	57,150	-
Christian Aid/Development Cooperation Ireland Multi Annual Partnership Scheme (MAPS)	62,000	-
Swedish ICJ – Sweden	1,000	-
Open Society Institute Development Foundation	60,000	-
General Board of Global Ministries	-	10,500
Al-Quds Association Malaga – Spain	16,900	15,057
Grassroots International – USA	18,750	37,305
Other donors	3,255	10,654
	<u>741,321</u>	<u>73,516</u>

10. Unrestricted contributions

Donors' unrestricted contributions during 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Swedish ICJ – Sweden	161,679	164,975
NOVIB	132,979	195,650
Development Cooperation Ireland- Representative Office of Ireland	133,442	121,558
Christian Aid-UK	-	83,734
Christian Aid/Development Cooperation Ireland Multi Annual Partnership Scheme (MAPS)	48,120	-
Open Society Institute Development Foundation	-	75,000
Dan Church Aid – Denmark	180,450	104,343
Al-Quds Association Malaga – Spain	12,201	-
UNAIS	7,200	-
Other donors	2,500	7,581
	<u>678,571</u>	<u>752,841</u>

11. Temporary contributions released from restriction

This item represents the revenue recognized as a result of satisfying the purpose of restricted donations during the year.

12. Programs and administrative and general expenses

	2004			2003
	Programs	Administrative & General	Total	Total
Salaries	433,571	233,461	667,032	558,657
Saving fund	51,535	27,750	79,285	68,979
End of service	34,265	18,450	52,715	45,378
Health insurance	13,026	7,014	20,040	22,191
Bonuses	7,007	3,773	10,780	18,400
International staff expense	6,019	3,241	9,260	10,815
Photocopying and printing costs	78,328	-	78,328	70,520
Professional and legal fees	97,282	-	97,282	103,589
Local transportation	15,545	2,852	18,397	16,900
Communication costs	38,230	7,013	45,243	36,651
Postage and courier	4,890	-	4,890	-
Training	2,699	-	2,699	9,764
Hosting seminars, conferences and workshops	1,876	-	1,876	8,348
Attending conferences and seminars	17,487	-	17,487	31,771
International travel	17,003	-	17,003	22,204
Hosting delegation	5,834	-	5,834	7,980
Rent	24,650	4,350	29,000	31,182
Utilities	5,294	934	6,228	6,278
Stationery	6,251	1,103	7,354	4,555
Office hospitality	4,652	733	5,385	7,295
Maintenance	8,912	1,403	10,315	9,465
Vehicle expenses	2,538	399	2,937	3,056
Building maintenance	2,769	436	3,205	-
Subscriptions	3,569	562	4,131	2,927
Bank charges	-	1,456	1,456	897
Exchange loss	-	1,743	1,743	4,640
Miscellaneous	582	92	674	4,557
	883,814	316,765	1,200,579	1,106,999

13. Fair values of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and bank balances, contributions receivable and other current assets. Financial liabilities consist of current liabilities.

The fair values of financial instruments are not materially different from their carrying values.

14. Restatement adjustments

Starting 2004, PCHR started recording the temporarily restricted contributions as liability and recognizing it as revenue upon satisfying the purpose of the restricted donation instead of recognizing the whole amount as revenue upon receiving the contribution. This policy has been applied in the financial statements retrospectively starting 2003 because it was not practicable to determine the cumulative effect from earlier date.

- The effect of the restatement on the net assets balance as of January 1, 2003 is as follows:

	<u>2003</u>
Net assets, January 1, 2003 - previously reported	651,296
Cumulative effect	<u>(476,584)</u>
Net assets, January 1, 2003 - restated	<u><u>174,712</u></u>

- The effect of the restatement on the change in net assets for the year ended December 31, 2003 is as follows:

	<u>2003</u>
Increase in temporary contributions released from restrictions	256,903
Change in net assets for the year ended December 31, 2003 - previously reported	<u>(336,191)</u>
Change in net assets for the year ended December 31, 2003 - restated	<u><u>(79,288)</u></u>

- The cumulative net effect of the restatement on the net assets balance as of December 31, 2003 is as follows:

	<u>2003</u>
Cumulative effect on net assets balance as of January 1, 2003	(476,584)
Increase in net assets for the year ended December 31, 2003	<u>256,903</u>
Net decrease in net assets as of December 31, 2003	<u>(219,681)</u>
Net assets as of December 31, 2003 - previously reported	315,105
Net assets as of December 31, 2003 - restated	<u><u>95,424</u></u>

- The effect of the restatement on the balance sheet as of December 31, 2003 is as follows:

	<u>2003</u>
Increase in temporarily restricted contributions	219,681
Net decrease in net assets as of December 31, 2003	<u>(219,681)</u>
	<u><u>-</u></u>

15. Concentration of risk in geographic area

PCHR is carrying out its activities in Palestine. The political and economical destabilization in the area increases the risk of carrying out business and could adversely affect PCHR's performance.

16. Risk management

Liquidity risk

PCHR limits its liquidity risk by maintaining adequate cash balances to meet its current obligations and to finance its operating activities.

Foreign currency risk

PCHR major contributions are collected in Euro and U.S. \$; however, PCHR local expenses are paid in U.S. \$ and NIS; consequently, PCHR is exposed to foreign currency loss resulting from changes in currency exchange rates.

17. Comparative figures

Certain prior year balances have been reclassified to conform to December 31, 2004 financial statements presentation.

SUPPLEMENTARY INFORMATION

PALESTINIAN CENTER FOR HUMAN RIGHTS

SUPPLEMENTAL FINANCIAL DATA TO THE FINANCIAL STATEMENTS ACTUAL AND BUDGETED EXPENDITURES FOR THE YEAR ENDED DECEMBER 31, 2004

(Currency: U.S. Dollar)

The following is a comparison between actual and budgeted expenses for the year ended December 31, 2004. Certain actual expenses were grouped to confirm with the financial statements presentation.

	<u>Actual</u>	<u>Budget</u>	<u>Variances</u>
Salaries and related expenses	839,112	845,750	6,638
Photo copying and printing costs	78,328	78,536	208
Professional and legal fees	97,282	112,640	15,358
Local transportation	18,397	20,500	2,103
Communication costs	45,243	38,500	(6,743)
Postage and Courier	4,890	5,800	910
Staff training and development	2,699	14,400	11,701
Hosting seminars, conferences and workshops	1,876	15,000	13,124
Attending conferences and seminars	17,487	36,225	18,738
International cooperation	17,003	26,400	9,397
Hosting delegation	5,834	14,400	8,566
Rent	29,000	29,700	700
Utilities	6,228	7,360	1,132
Stationary	7,354	6,924	(430)
Office hospitality	5,385	7,910	2,525
Computer and photocopiers Maintenance	10,315	8,745	(1,570)
Vehicle expenses	2,937	3,230	293
Building maintenance	3,205	2,336	(869)
Subscription in magazine and internet	4,131	5,700	1,569
Miscellaneous	3,873	6,375	2,502
	<u>1,200,579</u>	<u>1,286,431</u>	<u>85,852</u>
Fixed assets	9,561	42,000	32,439
Total expenditures	<u>1,210,140</u>	<u>1,328,431</u>	<u>118,291</u>